Universal Holdings Limited

2003

Interim
Report

Contents

The directors are pleased to present the Group's unaudited Interim Results for the six-months ended 30th June 2003.

BUSINESS REVIEW

The Group's loss attributable to shareholders for the six months ended 30th June 2003 is HK$16,883,000 representing an increase of HK$10,199,000 from the last corresponding period. The Group's consolidated turnover for the period is HK18,235,000, a decrease of HK$24,328,000 from the last corresponding period.

During the first half of the year, the Group's results was greatly affected by the economic downturn in Hong Kong and China, largely due to SARS. Now that this is over, the economic rebound will depend largely on the export driven market in China and the tourism industry in Hong Kong. With the high unemployment rate and deflationary factors in Hong Kong, the retail sector will continued to be stagnant and affect the Group's turnover and results.

OUR BUSINESS

Digital Broadcasting Investment

One of the Group's significant investments includes DNV (Holdings) Limited ("DVN"), a listed company in Hong Kong. DVN's business environment has improved significantly as the PRC government has announced its intention to migrate 30 million analog subscribers to digital by 2005. As a result, as more localities implement their digitalization plans, DVN has recorded sharply higher set-top boxes sales and subscription revenues. The increased revenues were achieved in spite of the impact from SARS, which caused cable television stations to delay their digitalization plans, and to reduce promotional activities.

In January, DVN sold headend equipment to Fujian, and is currently supplying Fujian with set-top boxes. A contract was signed with Shanghai in June to supply the municipality with set-top boxes; while integration contracts were signed with Urumqi, Hangzhou, and Qingdao.

The integration contracts are a new development for DVN in which DVN agrees to supply all the middleware, software, and integration expertise to ensure that a digital platform is up and running for a cable operator. DVN does not supply the actual headend hardware, and therefore does not incur any capital expenses. DVN receives an integration fee, but does not receive any subscription fees in this arrangement. However, in exchange for providing software that enables various value added services, DVN receives 30-50% of the value added service revenues for the next 15-20 years. Value added services include: online gaming, long distance education, television shopping, stock market trading, etc. Through this new business model, DVN does not incur any financial risk, while ensuring that it receives significant financial upside if value added services succeed in China.

This transition from headend sales to set top box and subscription sales is a natural progression as first cable operators must install the headends. Through these headend sales and through its leasing of headends in other localities, DVN is able to establish a base from which it can generate future revenues. After the headends are installed, the cable operator is able to sell set-top boxes and subscriptions to customers. With this transition, DVN expects accelerated revenue growth as the company will be able to generate considerably more revenues from set-top boxes and the provision of services as compared to sales of headends.

With the PRC government's continued push towards digitalization, DVN expects sales of set-top boxes' and subscription revenues to accelerate. In July 2003, China's State Administration of Radio, Film and Television ("SARFT") formally announced a list of

34 cities that should immediately implement plans to go digital. Among these cities, DVN has established relationships that give DVN potential access to 46% of SARFT's target of 30 million digital subscribers. For the 2nd half of 2003, at least four of these cities intend to implement plans to reduce the number of analog channels that current analog subscribers can view or to completely cutoff the analog signal. DVN also has numerous relationships with other cities that are not on this list, but which will also be promoting digital services.

The PRC government has made a firm decision to convert its analog cable system to digital, with an initial goal of migrating 30 million analog cable subscribers to digital by 2005. Implementation of this decision will result in multibillion opportunities to sell set-top boxes, to generate subscription revenues, and to generate other value added services such as home shopping and online gaming.

First mover advantages are extremely important in the cable industry as early entrants establish technical standards in the localities, legal commitments, and relationships that make entry for later competitors much more difficult. With this first mover advantage, DVN believes that it has established a strong base to grow its sales sharply.

Communication Division

The Group's communication division continues to develop its business in an intense competitive environment. The sale for the Group's modular call center solution have been sluggish for the period as the SARS epidemic affected our main sales location in Beijing. However, in recent months the response from the market has been positive. We expect that our scalable, cost effective modular system provides an affordable solution for enterprises to improve on customer care. We are well positioned in the China market to sell this solution and other related services.

Audio and Video Distribution Division

The high end audio market was adversely affected by the economic downturn from the effect of SARS. With the support of the government to stimulate tourism from China this will have an effect in the overall retail market for Hong Kong. The Group will move cautiously before investing further into this business segment and the overall economic climate in Hong Kong has improved.

Prospects

The economic outlook for Hong Kong is more upbeat recently with the introduction of relaxing the entry of visitors from China. Such stimulus in the tourism industry will certainly improve the retail sector. The Group will monitor the rebound of the retail sector and seek opportunities to expand its current operations.

As discussed above, the Group's significant investment in DVN is engaged in the exciting and still maturing digital broadcasting industry in China with significant potential in revenue and profits.

The Group will seek to diversify its businesses and implement strategy that strengthens its revenue and asset base. The Group will continue to explore any business opportunities in strategic acquisition of equity interests in Hong Kong or abroad. In addition, the Group will look for opportunities to expand its capital base in the equity and capital markets.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June 2003, the Group held cash deposits of HK$16,645,000, an increase of HK$12,378,000 compared to 31st December 2002 mainly due to the short term borrowing of the Group. The current ratio decreased from 1.18 at the prior year end to 1.03 as at 30th June 2003. The gearing ratio, representing long term liabilities to net worth, increase from 0.18 at 31st December 2002 to 0.25 at 30th June 2003.

The Group did not issue any share capital for any fund raising activities during the period. In addition to the internal generated cash flows, the Group also made use of short term borrowing, which was secured against shares of an associated company, and advances from a fellow subsidiary to finance its operations during the period. There were no significant exposures to foreign currency fluctuations. All borrowings during the year were based on market interest rate. The Group had no long term bank loan and no bank overdrafts outstanding as at year end. The Group will rely on internal generated cash flows and the realization of its assets to fund future cash flow requirements.

Significant investments held

There was no change in significant investments held during the period and there was no material acquisition or disposal during the period. Details of significant investment held were disclosed in the 2002 annual report.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

As at 30th June 2003, the Group employed a total of 10 full-time employees in Hong Kong and a work force of about 25 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel including engineering and product development staff are remunerated by monthly salary which are reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

Pending Litigation and Contingent Liabilities

The Group had a pending litigation and the details have been disclosed in the notes to this interim financial statements. The Group did not have any material contingent liabilities as at 30th June 2003.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2003, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO, were as follows:

(A) The Company

		Number of ordinary shares of HK$0.01 each	
Names	*Notes*	**Personal interests**	**Corporate interests**
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	*(i)*	18,640,000	1,000,437,150

(B) DVN (Holdings) Limited ("DVN")

		Number of ordinary shares of HK$0.10 each		
Names	*Notes*	**Personal interests**	**Family interests**	**Corporate interests**
Mr. Ko	*(ii)*	343,000	2,040,816	158,357,940

Notes:

(i) Kwan Wing Holdings Limited ("Kwan Wing") and Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing, beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Mr. Ko has 100% direct interest in Kwan Wing and approximately 96% beneficial interest in Techral.

(ii) 118,403,418 ordinary shares in DVN are directly held by Prime Pacific International Limited ("Prime Pacific"), which is owned as to 67% and 33% by Gold Pagoda Incorporated ("Gold Pagoda") and Prime Gold International Limited ("Prime Gold"), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing.

Gold Pagoda is a wholly-owned subsidiary of the Company which is turn is controlled by Mr. Ko.

31,032,522 ordinary shares in DVN are held directly by Universal Appliances Limited, which is wholly-owned by the Company.

2,956,000 ordinary shares in DVN are held by All Mark Limited, which is wholly owned by the Company.

1,600,000 ordinary shares in DVN are held by Peninsula Resources Limited, which is wholly-owned by Mr. Ko.

3,144,000 ordinary shares in DVN are held by Kwan Wing.

1,222,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly-owned by Mr. Ko.

2,040,816 ordinary shares in DVN are held by the spouse of Mr. Ko.

(iii) Million Way Enterprises Limited, a wholly-owned subsidiary of the Company, also holds US$15,000,000 preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of DVN. These preference shares are exchangeable to approximately 24,786,780 ordinary shares of DVN upon conversion and are subject to adjustments.

(C) Rights to acquire ordinary shares of DVN

Movement of the share options of DVN granted to the director of the Company are as follows:

Directors	Date of share options granted	Number of share options outstanding as at 1st January 2003	Number of share options granted during the period	Number of share options cancelled/ lapsed during the period	Number of share options outstanding as at 30th June 2003	Exercise period	Exercise price per share
							HK$
Mr. Ko	23/7/2002	3,000,000	–	–	3,000,000	24/7/2002 – 23/7/2005	1.47

Save as disclosed above, at 30th June 2003, none of the directors, the chief executive or their associates had any interests in the share capital of the Company or its associated corporation which were recorded in the Register required to be kept by the Company under Section 352 of the SFO.

(D) Other Share Options

The Company did not grant any share options during the period and had no outstanding share option not been exercised as at 30th June 2003.

SUBSTANTIAL SHAREHOLDERS

At 30th June 2003, save as disclosed in Directors' Interests in equity or debt securities above, no other person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 336 of the SFO.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of in the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th June 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with the directors and management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2003.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude and appreciation to all management and staff members for their dedication, contributions and hard work for the period.

By Order of the Board
Ko Chun Shun, Johnson
Chairman

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2003

		Six months ended 30th June	
		2003	2002
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**18,235**	42,563
Cost of sales		**(17,154)**	(27,685)
Gross profit		**1,081**	14,878
Other revenues		**7,789**	22,082
Distribution expenses		**(633)**	(10,212)
Administrative expenses		**(10,038)**	(42,916)
Unrealised holding loss on short-term investment		**(6,746)**	(4,468)
Other operating expenses		**—**	(6,302)
Operating loss	*3*	**(8,547)**	(26,938)
Finance costs		**(1,966)**	(1,049)
Share of losses of jointly controlled entity		**—**	(212)
Share of results of an associate company		**(6,370)**	—
Loss before taxation		**(16,883)**	(28,199)
Taxation	*5*	**—**	—
Loss after taxation		**(16,883)**	(28,199)
Minority interests		**—**	21,515
Loss for the period		**(16,883)**	(6,684)
Loss per share	*6*	**HK Cents 0.61**	HK Cents 0.24

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2003 and 31st December 2002

	Notes	30th June 2003 (Unaudited) HK$'000	31st December 2002 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets	7	**4,725**	6,030
Intangible assets	8	**2,012**	2,249
Interest in associated company	9	**33,669**	39,742
Investment securities	10	**80,508**	80,508
Other assets	11	**6,169**	6,169
		127,083	134,698
CURRENTS ASSETS			
Inventories		**4,994**	5,927
Trade receivables	12	**15,960**	126
Preference dividend receivables		**13,077**	10,171
Prepayments, deposits and other receivables		**6,208**	6,545
Short-term investments		**1,273**	11,607
Cash and bank balances		**16,645**	4,267
		58,157	38,643
CURRENT LIABILITES			
Trade payables	13	**14,098**	596
Other payables and accrued liabilities		**22,487**	32,207
Short-term borrowings	14	**20,000**	—
		56,585	32,803
NET CURRENT ASSETS		**1,572**	5,840
TOTAL ASSETS LESS CURRENT LIABILITIES		**128,655**	140,538
CAPITAL AND RESERVES			
Issued capital	16	**30,151**	30,151
Reserves		**72,288**	89,171
Shareholders' funds		**102,439**	119,322
Minority interests		**—**	—
		102,439	119,322
NON-CURRENT LIABILITES			
Amount due to a fellow subsidiary	15	**26,216**	21,216
		128,655	140,538

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2003

	Six months ended 30th June	
	2003	2002
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(12,286)**	(31,292)
Net cash inflow/(outflow) from investing activities	**3**	(22,240)
Net cash inflow from financing	**24,661**	27,335
Increase/(decrease) in cash and cash equivalents	**12,378**	(26,197)
Cash and cash equivalents at 1st January	**4,267**	65,487
Cash and cash equivalents at 30th June	**16,645**	39,290
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**16,645**	39,372
Trust receipt loans of original maturity of less than three months	**—**	(82)
	16,645	39,290

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2003

	Ordinary share capital	**Preference share capital**	**Share premium**	**Merger reserve**	**Currency translation**	**Accumulated deficits**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 1st January 2003	**27,743**	**2,408**	**162,789**	**860,640**	**(171)**	**(934,087)**	**119,322**
Net loss for the period	**–**	**–**	**–**	**–**	**–**	**(16,883)**	**(16,883)**
At 30th June 2003	**27,743**	**2,408**	**162,789**	**860,640**	**(171)**	**(950,970)**	**102,439**

	Ordinary share capital	Preference share capital	Share premium	Currency translation	Accumulated deficits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2002	499,373	43,337	510,870	1,155	(838,984)	215,751
Net loss for the period	–	–	–	–	(6,684)	(6,684)
Exchange realignments	–	–	–	(20)	–	(20)
At 30th June 2002	499,373	43,337	510,870	1,135	(845,668)	209,047

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock of Hong Kong Limited (the "Stock Exchange").

These condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies adopted and methods of computation used in the preparation of these financial statements are consistent with those used in the Group's annual financial statements for the year ended 31st December 2002 except that the revised SSAP 12 ("Income Taxes") issued by the HKSA have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The revised SSAP has had no major impact on the condensed consolidated financial statements.

Certain comparative figures have been reclassified to conform to the current period's presentation.

2. Segment information

The Group is principally engaged in the retail and distribution of home audio and video equipment and components and the provision of IP Telephony and related services. The business segments of trading of digital broadcasting equipment and related services, and the provision of international financial market information and selective customer data services were carried out by the former subsidiaries which have been reclassified as associated companies at 31st December 2002.

An analysis of the Group's revenue and results for the period by business segments and by geographical segments, are as follows:

By Business Segments:

	Six months ended 30th June 2003				
	Broadcasting Equipment	Home Audio	Financial Market Information	IP Telephony	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	—	15,580	—	2,655	18,235
Segment results	—	(171)	—	(344)	(515)
Preference dividend income					2,906
Gain for disposal of short term investment					4,057
Unallocated costs					(14,995)
Operating loss					(8,547)

	Six months ended 30th June 2002				
			Financial		
	Broadcasting	Home	Market	IP	
	Equipment	Audio	Information	Telephony	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	31,751	1,439	6,155	3,218	42,563
Segment results	(4,924)	(672)	(2,179)	(4,845)	(12,620)
Unallocated costs					(14,318)
Operating loss					(26,938)

By Geographical Segments:

	Six months ended 30th June 2003				
				Other	
		Mainland		**Southeast**	
	Hong Kong	**China**	**USA**	**Asia**	**Group**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Revenues	**15,580**	**2,655**	**0**	**0**	**18,235**
Segment results	**(171)**	**(344)**	**0**	**0**	**(515)**
Preference dividend income					**2,906**
Gain for disposal of short term investment					**4,057**
Unallocated costs					**(14,995)**
Operating loss					**(8,547)**

	Six months ended 30th June 2002				
				Other	
		Mainland		Southeast	
	Hong Kong	China	USA	Asia	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	5,947	30,779	3,120	2,717	42,563
Segment results	15,670	(26,859)	135	(1,566)	(12,620)
Unallocated costs					(14,318)
Operating loss					(26,938)

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

3. Operating loss

Operating loss is stated after charging the following:

	Six months ended 30th June	
	2003	2002
	HK$'000	*HK$'000*
Charging		
Depreciation:		
Owned fixed assets	**1,305**	9,382
Leased fixed assets	**—**	61
Amortisation of goodwill	**94**	994
Amortisation of development costs, patents and trademarks	**185**	4,251
Provision for doubtful debts — net	**—**	225

4. Staff costs

	Six months ended 30th June	
	2003	2002
	HK$'000	*HK$'000*
Salaries	**3,452**	18,191
MPF Contributions	**37**	1,121
	3,489	19,312

5. Taxation

Hong Kong profits tax has not been provided (2002: nil) as the Group did not generate any assessable profits arising in Hong Kong for the period. Overseas profits tax has not been provided (2002: nil) as the foreign subsidiaries did not generate any assessable profits attributable to their operations in their respective countries of operation or are still exempted from income tax during the period.

No deferred tax has been provided for the Company and the Group because there were no significant timing differences at the balance sheet date.

6. Loss per share

The calculation of basic loss per share for the period ended 30th June 2003 is based on the net loss attributable to shareholders of HK$16,833,000 (2002: net loss of HK$6,684,000) and the weighted average number of 2,774,293,157 (2002: 2,774,293,157) ordinary shares deemed to have been in issue during the period.

There were no dilutive potential ordinary shares in 2002 and 2003 and therefore, no diluted loss per share for the period is shown.

7. Fixed Assets

Six months ended 30th June 2003	
	HK$'000
Owned Assets:	
Opening net book amount	**6,030**
Additions	**—**
Disposals	**—**
Depreciation	**(1,305)**
Closing net book amount	**4,725**

8. Intangible Assets

		Development	
	Goodwill	Costs	Total
Six months ended 30th June 2003	*HK$'000*	*HK$'000*	*HK$'000*
Opening net book amount	**1,789**	**460**	**2,249**
Amortisation charge	**(52)**	**(185)**	**(237)**
Closing net book amount	**1,737**	**275**	**2,012**
At 30th June 2003			
Cost	**2,075**	**1,415**	**3,490**
Accumulated amortisation	**(338)**	**(1,140)**	**(1,478)**
Net book amount	**1,737**	**275**	**2,012**
At 31st December 2002			
Cost	2,075	1,415	3,490
Accumulated amortisation	(286)	(955)	(1,241)
Net book amount	1,789	460	2,249

9. Interests in associated companies

	30th June 2003 *HK$'000*	31st December 2002 *HK$'000*
Share of net assets	**25,787**	32,157
Goodwill on acquisition of associated companies less amortization	**8,436**	8,478
Amounts due to associated companies	**(554)**	(893)
	33,669	39,742
Market value of listed investments	**96,321**	79,323
Investment at cost:		
Listed shares, in Hong Kong	**276,514**	276,514

DVN and its subsidiaries (collectively as "DVN Group") were accounted for as subsidiaries in the Company's accounts for the period from 1st January 2002 to 13th December 2002 when the Group had board control over DVN. After the resignation of a director of the Company on 13th December 2002, the Group no longer had board control over DVN. Accordingly, the DVN Group has been reclassified as an associated company group in the Group's accounts thereafter.

Particulars of the significant associated companies are as follows:

Name	**Country/ Place of incorporation**	**Nominal value of issued ordinary share/ preference share/ registered capital**	**Interest held indirectly**	**Principal activities and place of operation**
DVN (Holdings) Limited	Bermuda	HK$37,673,000 Ordinary	30.08%	Investment holding

Name	Country/ Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly	Principal activities and place of operation
DVN (Group) Limited	British Virgin Islands	US$10 ordinary US$15,000,000 preference	30.08%	Investment holding
Dynamic Network Limited	British Virgin Islands	US$1 ordinary	30.08%	Investment holding
DVN (Management) Limited	Hong Kong	HK$2 ordinary	30.08%	Provision of administrative services in Hong Kong
DVN Technology Limited	Hong Kong	HK$2 ordinary	30.08%	Design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries
Telequote Data International Limited	Hong Kong	HK$10,000 ordinary	30.08%	Provision of international financial market information and selective consumer data in Hong Kong
DVN Technology (Shenzhen) Co. Limited	People's Republic of China	HK$3,000,000	30.08%	Development of hardware and software in relation to digital broadcasting in the PRC

Name	Country/ Place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly	Principal activities and place of operation
DVB Technology (Suzhou) Company Limited	People's Republic of China	RMB100,000,000	21.06%	Trading of digital broadcasting equipment and related products in the PRC
Digital Video Networks Company Limited	People's Republic of China	US$7,000,000	30.08%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC

Extracts of the operating results and financial position of the DVN Group, a principal associated company group of the Group, which are based on the accounts are as follows:

Operating results for the period/year

	6 months ended 30th June 2003 (Unaudited) ***HK$'000***	year ended 31st December 2002 (Audited) *HK$'000*
Turnover	**40,677**	49,879
Loss for the period/year	**(21,175)**	(136,210)

Summary of balance sheet

	30th June 2003	31st December 2002
	HK$'000	*HK$'000*
Fixed assets	**60,577**	65,073
Intangible assets	**40,614**	37,911
Long term deposits	**47,425**	47,425
Investment securities	**20,280**	20,280
Investment in a jointly controlled entity	**8,396**	9,057
Current assets	**135,354**	110,216
Current liabilities	**(102,887)**	(59,188)
Minority interests	**(121,936)**	(122,110)
Shareholders' equity	**87,823**	108,664

10. Investment securities

	30th June 2003	31st December 2002
	HK$'000	*HK$'000*
Listed shares, at cost		
— outside Hong Kong *(note a)*	**23,414**	23,414
Unlisted shares, at cost		
— Preference share outside Hong Kong *(note b)*	**143,508**	143,508
	166,922	166,922
Less: provision for impairment loss	**(86,414)**	(86,414)
	80,508	80,508
Market value of listed investments *(note a)*	**—**	—

(a) The listed equity investment outside Hong Kong represents the holding of 1,500,000 shares (representing 6.8% of the common stock) in a company which was incorporated in the United States of America and was listed on the National Association of Securities Dealer Over-The-Counter Bulletin Board ("OTCBB"). The investee company has been temporarily delisted on OCTBB since 3rd October 1998. Full provision against the cost of these shares was made. The market value of the investment at 3rd October 1998, the date on which the investee company was delisted on the OTCBB, was US$3 per share.

(b) The Group held 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited, an associated company, at HK$143,508,000. These preference shares are exchangeable to approximately 24,786,780 ordinary shares of DVN, a listed associated company, upon conversion at HK$4.69 per share and are subject to adjustment. Fixed cumulative cash dividend on preference shares are receivable at a rate of 5% per annum on the nominal value amount of each preference share for each year. Dividend income receivable at 30th June 2003 amounted to HK$13,078,000 (at 31st December 2002: HK$10,171,000).

The provision for impairment loss for this investment was approximately HK$63,000,000 at 30th June 2003 and at 31st December 2002.

11. Other assets

	30th June 2003	31st December 2002
	HK$'000	*HK$'000*
Deposit for investment in a joint venture	**4,104**	4,104
Club debentures	**2,065**	2,065
	6,169	6,169

12. Trade and other receivables

At 30th June 2003, the aging analysis of the trade receivables is as follows:

	0-3 months	4-6 months	Over 6 months	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*
Balance at 30th June 2003	**14,538**	**1,296**	**126**	**15,960**
Balance at 31st December 2002	126	—	—	126

The majority of the Group's sales are on credit with credit terms of 30-90 days.

13. Trade and other payables

At 30th June 2003 the aging analysis of the trade payables is as follows:

	0-3 months	4-6 months	Over 6 months	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*
Balance at 30th June 2003	**13,925**	**—**	**173**	**14,098**
Balance at 31st December 2002	390	—	206	596

14. Short term borrowings

	30th June 2003	31st December 2002
	HK$'000	*HK$'000*
Loan — secured	**20,000**	—

The loan is secured against listed securities, bears interests at 17% and is repayable in February 2004.

15. Amount due to a fellow subsidiary

The amount due to a fellow subsidiary bears interest at prime lending rate plus 2.5% per annum (2002: prime lending rate plus 2.5%). The balance is unsecured an is not expected to be repaid within 1 year.

At 31st December 2002, there was an amount of HK$50,715,000 due to a fellow subsidiary which is also a minority shareholder of a subsidiary. The balance was represented as a net-off against a debit balance arising from the same minority shareholder of that subsidiary of the same amount. The balance is unsecured, interest-free and has no fixed terms of repayment.

16. Share capital

	Number of ordinary shares of HK$0.01 each		Number of preference shares of HK$0.01 each		Total
	No. of share		No. of share		
	'000	*HK'000*	*'000*	*HK'000*	*HK$'000*
Authorised:					
At 30th June 2003/ 31st December 2002	5,000,000	50,000	240,760	2,408	52,408
Issued and fully paid:					
At 30th June 2003/ 31st December 2002	2,774,293	27,743	240,760	2,408	30,151

Preference Shares

Preference shareholders are entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders are also entitled to receive a non-cumulative cash dividend which will be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares.

Share Option

Pursuant to the 10-year term share option scheme ("Option Scheme") adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares then in issue. Unless with shareholder's approval, the maximum number of shares options can be granted under the Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

Subscription price in relation to each option pursuant to the Option Scheme shall not be less than the higher of (i) the closing price of the shares as stated in SEHK's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the SEHK's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the Board of directors of the Company.

During the period, the Company did not grant any share options and there was no outstanding share option as at 30th June 2003.

17. Contingent liabilities

The Group did not have any material contingent liabilities as at 30th June 2003.

18. Commitments

	30th June 2003 HK$'000	31st December 2002 HK$'000
(a) At 30th June 2003, the Group's future aggregate minimum lease payments under non-cancellable operating lease are as follows:		
Land and building:		
Not later than one year	**312**	1,141
Later than one year and not later than five years	**468**	625
	780	1,766
Equipment:		
Not later than one year	**416**	416
Later than one year and not later than five years	**759**	759
	1,175	1,175

(b) Financial Commitments

The Company had no significant capital commitment at 30th June 2003.

19. Related party transaction and connected transactions

	Six months ended 30th June 2003 HK$'000	2002 HK$'000
Sales of digital broadcasting systems to a jointly controlled entity	—	14,252
Service fee income from a jointly controlled operation	—	265
Dividend income from an associated company	**2,906**	—

20. Pending Litigation

(a) On 24th August 1997, Smoothline Limited ("Smoothine") a wholly owned subsidiary of the Company, received a Demand for Arbitration from a customer (the "Customer") for resolution of dispute which relates to sale of certain cordless telephones by certain supplier (collectively referred to as the "Supplier") to the Customer under an agreement dated 31st March 1993 in which Smoothline had certain secondary obligations as one of the guarantors for the Supplier performance.

As the dispute at issue is primarily between the Customer and the Supplier, a finding of liability on the part of Smoothline is necessarily dependent upon a prior finding of liability on the part of the Supplier and, further, upon the failure of the Supplier to satisfy such a judgement.

Counsel for both parties have agreed to wait for the outcome of other issues mentioned in paragraph (c) below before proceeding to arbitration. The directors believe that the Group has substantial legal and factual defences against the claim and hence consider that provision for the claim is not necessary.

(b) On 9th September 1998, Smoothline was notified that the Customer and a party holding certain patents had agreed to settle a patent infringement dispute relating to the distribution of certain products, including certain cordless telephones manufactured by Smoothline, by payment by the Customer of US$1.25 million (equivalent to approximately HK$9.7 million) and the granting by such party to the Customer and its suppliers (including Smoothline) of a licence for such products. Smoothline has been requested by the Customer to contribute a portion of the above costs of approximately US$800,000 (equivalent to approximately HK$6.2 million). The directors believe that Smoothline has valid defences against the claim and consider that a provision for the claim is not necessary as this matter has been dormant for over four years.

(c) On 21st December 1999, in relation to the Customer referred to in paragraph (a) above, two subsidiaries, Smoothline and Greatsino Electronic Limited ("GEL"), of the Group sought to clarify their obligations relating to the Customer through proceedings in The Princely District Court of Liechtenstein against both the Customer and FHA Handelsanstalt ("FHA"). On 14th March 2000, in connection with Liechtenstein proceedings the two subsidiaries petitioned The District Court of The Southern District of New York for a discovery order pursuant to 28 U.S.C. 1782 against the Customer. The petition has been opposed by the Customer who also seeks to refer some of the matters raised in the Liechtenstein action to arbitration under AAA in New York.

On 7th May 2001, the United States Court of Appeals for the Second Circuit ("the Second Circuit Court of Appeals") reversed a 21st July 2000 District Court decision denying the Customer's arbitration demand. Pursuant to this, Smoothline must arbitrate its disputes with the Customer. In addition, the Court of Appeals remanded the case to the District Court for a determination of whether GEL and another Group subsidiary, Universal Appliances Limited ("UAL"), the parent company of Smoothline and GEL, are required to arbitrate.

On 27th February 2002, the District Court granted the Customer's motion to compel arbitration with respect to GEL and, on 27th December 2002, issued a further opinion compelling UAL to arbitrate.

On 6th April 2003, Smoothline, GEL and UAL filed to appeal the District Court's 27th February 2002, and 27th December 2002 opinion and are waiting for instructions from the Second Circuit Court of Appeals regarding scheduling of the appeals. Smoothline, GEL and UAL intend to vigorously contest the District Court's rulings.

As a result of the February and December 2002 District Court rulings, the Customer has restarted its earlier filed arbitrations against Smoothline, GEL and UAL in the AAA in New York. Reserving their rights regarding outcome of appeal filed on 6th April 2003, Smoothline, GEL and UAL have agreed to attempt mediation of their disputes with the Customer prior to arbitration.

In the Liechtenstein proceedings (see above), Smoothline and GEL claimed damages of US$14.78 million. No specific counter-claims have been filed by the Customer. The directors believe that there exist valid and substantial defences against any potential counter-claims. Accordingly, the directors do not consider any provisions is necessary.

21. Subsequent events

There is no material subsequent event for the six months ended 30th June 2003.

On 15th September 2003, the Company has raised a net proceed of HK$14.5 million through a top-up placement. Pursuant to this placement, the Company has placed out 500 million new Shares of the Company at a consideration of HK$0.03 per share.